

Message Text

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SUBJECT: SAFCO - SAUDI ARABIA'S SECOND MAJOR EXPORTER

1. PROMPTED BY QUERY FROM DACCA REGARDING SAG GRANT OF 200,000 TONS OF NITROGEN FERTILIZER TO BANGLADESH, CONSOFFS HELD LENGTHY DISCUSSION WITH DR. A. QIDWAI, GENERAL MANAGER OF SAUDI ARABIAN FERTILIZER COMPANY (SAFCO), ON OPERATIONSO FIRM. DR.HQIDWAI, PAKISTANI NATIONAL WHO FORMERLY MANAGED EXXON FERTILIZER PLANT IN PAKISTAN, GAVE UP-BEAT REPORT OF FIRM'S OPERATIONS. ACCORDING QIDWAI, SAFCO IS NOW SECOND TOHARAMCO (A FAR SECOND) IN TERMS OF VALUE OF EXPORTS FROM SAUDI ARABIA.

2. FOLLOWING POINTS WERE MADE BY QIDWAI DURING DISCUSSION:

A. SAFCO PRODUCTION CAPACITY FOR UREA NITROGEN FERTILIZER IS 275,000 TO 280,000 TONS ANNUALLY. PRODUCTION WAS 225,000 TONS IN 1977 AND SHOULD REACH 250,000 TONS IN 1978.

B. PLANT, WHICH WAS POORLY DESIGNED ACCORDING TO QIDWAI, HAS SUFFERED FROM PERIODIC SHUT-DOWNS IN PAST, BUT DUE TO EXTENSIVE REPAIR OF MACHINERY
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AND BETTER UTILIZATION, PLANT WILL HAVE DAILY PRODUCTION LEVEL OF 600 TONS OF AMONIA AND 900 TONS OF NITROGEN.

C. FORMER RELATIONSHIP WITH INTERNATIONAL ORE AND FERTILIZER CORP. (INTER ORE), DIVISION OF OCCIDENTAL, WAS EXTREMELY BAD FOR SAFCO. UNDER FORMER

PARTNERSHIP, SAFCO WAS NEITHER EFFICIENT NOR PROFITABLE FIRM. SAFCO HAS NOW SHOWN IT CAN SELL PRODUCT AND GIVE SHAREHOLDERS (51 PERCENT FOR MINISTRY OF INDUSTRY AND 49 PERCENT FOR PRIVATE INDIVIDUALS) GOOD RETURN ON INVESTMENT (15 PERCENT IN 1977). TERMINATION OF AGREEMENT WITH INTER ORE (SEPTEMBER 1977) COINCIDED WITH SAFCO HIRING OF DUTCH SALES MANAGER WHO HAS BEEN ABLE TO SELL FERTILIZER TO ETHIOPIA, PAKISTAN, INDIA AND YEMEN. OTHER MARKETS BEING EXPLORED INCLUDE SOMALIA AND SUDAN.

D. SAFCO EXPORTS 95 PERCENT OF ITS PRODUCTION AND IN 1977 MADE PROFIT OF SR 21 MILLION.

E. SAFCO HAS NO PRESENT PLANS TO EXPAND ITS EXISTING PLANT. WHEN ASKED ABOUT JOINT VENTURE OPERATIONS WITH SABIC IN JUBAIL COMPLEX, QIDWAI SAID SAFCO MIGHT PROVIDE SOME EXPERTISE TO SABIC AND IT IS POSSIBLE THAT SAG EQUITY IN SAFCO COULD BE TRANSFERRED TO SABIC.

F. SABIC HAS PLANS FOR TWO FERTILIZER PLANTS IN JUBAIL COMPLEX, EACH WITH 500,000 TON CAPACITY. HOWEVER, LITTLE PROGRESS HAS BEEN MADE THUS FAR IN OBTAINING JOINT VENTURE AGREEMENT WITH FOREIGN FIRMS ALTHOUGH SABIC HAS HELD DISCUSSIONS ON PROJECT WITH AMERICAN, TAIWANESE AND SPANISH COMPANIES.
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G. SAG FERTILIZER GRANT OF 200,000 TONS TO BANGLADESH WAS FOR CY 1977 AND CY 1978. SAFCO WAS ABLE TO SHIP ONLY 95,000 TONS IN 1977 BUT EXPECTS TO SHIP 105,000 TONS IN 1978. BANGLADESH AMBASSADOR, WHO VISITED PLANT LAST WEEK, REPORTEDLY TOLD QIDWAI THAT AMBASSADOR WOULD BE MAKING HIS PITCH THIS SUMMER TO SAG FINANCE MINISTER FOR SIMILAR GRANT FOR 1979 AND 1980.

3. QIDWAI ALSO DWELT AT LENGTH ON LABOR PROBLEMS AT SAFCO, PARTICULARLY AMONG EXPATRIATE WORKERS. HE WAS CRITICAL OF HIS OWN COUNTRYMEN WHO HELPED PAD PAYROLL BY BRINGING INTO FIRM THEIR RELATIVES WHO DID LITTLE WORK. HE HAD ALREADY RELEASED A NUMBER OF EMPLOYEES AND HOPED TO GET EMPLOYMENT LEVEL DOWN TO 500 FROM CURRENT LEVEL OF 570.

4. MAIN PROBLEM FOR SAFCO NOW, ACCORDING QIDWAI, IS POLLUTION. FIRM HAS TAKEN CERTAIN STEPS TO CORRECT PROBLEM BUT WITH GROWTH OF AL-KHOBAR AND DAMMAM CROWDING INTO FIRM'S AREA, SAFCO WILL BE UNDER CONSIDERABLE PRESSURE TO REDUCE POLLUTION FURTHER.

5. QIDWAI WAS OPTIMISTIC ABOUT FIRM'S FUTURE EXPORT

CAPABILITIES. HE MAINTAINED THAT HORN OF AFRICA COUNTIRES
AND SUDAN WOULD PROBABLY BE MAIN FUTURE MARKET FOR SAFCO
AND THAT FIRM WOULD BE ABLE TO EXPORT ALL THAT IT COULD
PRODUCE. WITH PRODUCTIVITY RISING, BETTER UTILIZATION
OF PLANT AND REDUCTION OF WORK FORCE, QIDWAI CLAIMED THAT
1978 WOULD SHOW EVEN BZTTER RETURN ON INVESTMENT THAN
THE 15 PERCENT IN 1977.
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